

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58011

CITY OF BELLINGHAM

Whatcom County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: January 31, 1997

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CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor
City of Bellingham
Bellingham, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Bellingham is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the city's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed an instance of noncompliance that may materially affect the financial statements, the effects of which have not been corrected in the city's financial statements. The material instance of noncompliance noted during our audit is disclosed in the accompanying Schedule of Federal Findings.

We considered the instance of noncompliance in forming our opinion on whether the city's financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and the statutory provisions described in paragraph four of this report.

Except for the material instance of noncompliance disclosed in the Schedule of Federal Findings accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the city complied, in all material respects, with the provisions referred to in the third and fourth paragraphs of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those provisions. However, we noted the immaterial instance of noncompliance disclosed in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Mayor
City of Bellingham
Bellingham, Washington

We have audited the general-purpose financial statements of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted a reportable condition that we believe to be a material weakness, which is identified in the Schedule of Federal Findings accompanying this report.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The City Of Bellingham Should Improve Internal Controls Over The Cash Receipting System At The Lake Padden Golf Course And Reconcile Golf Course Receipts With Golf Course Management Reports

Our review of the cash receipting procedures at the golf course revealed the cash, check, and charge composition as rung into the cash register does not reconcile to the amount deposited in the bank. As a result of these irregularities, no one can determine if the city has received all revenue due from the golf course.

The City of Bellingham contracts with an outside party to manage the daily operations of the Lake Padden Golf Course. The golf course manager is required to remit the greens fees and a percentage of receipts from the pro-shop and concession sales to the city. The golf course management report is prepared by the manager and is used as the basis to determine the city's share of revenue. The finance department reconciles the deposits from the golf course to the summary "Z" tapes from the golf course cash register in total but not by mode of payment.

We performed two surprise cash counts at the Lake Padden Golf Course during this audit. Due to the significant cash and check irregularities noted during these cash counts, we conducted a further review of the cash receipting system at the golf course. Our review included detail testing of daily cash receipts during the period June 11-22, 1996. We concluded that cash deposited was \$3,043.52 less than cash receipted, checks deposited were \$2,193.57 more than checks receipted, and charges deposited were \$732.79 more than charges receipted. In addition, we performed a cursory review of these records during the period March 1, 1996, through May 31, 1996, which resulted in cash shortages of \$18,154.37, check overages of \$14,857.66, and credit card overages of \$3,792.18.

The golf course manager stated these differences were most likely due to errors in entering the mode of payment on the cash register and to giving cash advances on credit cards. However, neither management nor auditors were able to specifically determine if the June 11-22, 1996, differences were the result of errors or a misappropriation of public funds. The inability to determine if irregularities have occurred is due to the following internal control weaknesses:

- a. **The correct mode of payment is not consistently indicated on the detail journal tapes.** As a result, the cash, checks, and charges deposited do not agree to cash register "Z" tapes. This situation creates an environment where cashiers could purposely not ring in a check or charge transaction and steal the corresponding amount of cash from the register.
- b. **Cash advances are given on credit card transactions.** These unauthorized cash advances are not rung into the cash register. As a result, cash is short because it is

not recorded on the journal tape. This situation creates an environment where a valid credit card transaction can be processed and cash removed for personal gain instead of ringing the transaction into the cash register.

- c. **Several cashiers share the same cash drawer.** As a result, accountability for errors and irregularities cannot be established to any specific individual.
- d. **When the cash drawer becomes full due to a large volume of business, the extra cash and checks are placed in an unlocked box and left on the shelf under the till.** As a result, all cash and checks were not properly safeguarded.
- f. **Checks are not restrictively endorsed when received.** As a result, the checks could be misappropriated by being deposited in a personal account.
- g. **Deposits are not made timely or intact.** This condition creates an environment where a check for cash substitution scheme is possible.
- h. **A mode of payment reconciliation of the receipts to the deposits was not performed.** As a result, any errors or irregularities would not be detected and corrected by management on a timely basis. Furthermore, the city cannot ensure that all revenue due from the golf course is received.
- i. **Tee-time reservation sheets are not retained for review by management or audit.** These sheets represent the original source documents supporting the greens fees revenue for the day. They should be retained and used as a management tool. Without these reservation sheets, the city cannot ensure all revenue due from the golf course is received.

The *Revised Code of Washington* (RCW) 43.09.200, which prescribes the system of accounting for local governments, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The Merchant Services Contract, between the Lake Padden Golf Course and Seafirst Bank, prohibits cash advances on credit cards. Section 6.9 "Prohibited Practices" (b) states in part:

Merchant shall not give a Cardholder funds (by cash, check or otherwise) in return for a Sales Draft. Each Sales Draft delivered to Bank shall represent the obligation of a Cardholder in the amount stated on the Sales Draft for merchandise sold or services rendered.

The contract between the City of Bellingham and the Lake Padden Golf Course Manager, which includes the division of revenues, states in part:

The manager shall remit to the City amounts equal to the percentages (after deduction of any applicable sales tax) for the following pro-shop and concession activities:

1. Golf merchandise sales, two percent (2%) of gross receipts;
2. The practice facilities, twenty percent (20%) of gross receipts;
3. Club and pull cart rentals, two percent (2%) of gross receipts;
4. Golf car rentals, three percent (3%) of gross receipts;
5. Sale of refreshments, food, and sundries, one percent (1%) of gross receipts;
6. Beer and wine sales, one percent (1%) of gross receipts;
7. Golf lessons, one percent (1%) of gross receipts;
8. Repair of golf equipment, one percent (1%) of gross receipts.

These internal control weaknesses have occurred because the city has not implemented proper segregation of duties and cash handling policies and procedures for the golf course. Without proper segregation of duties, no assurance can be given that all revenues due to the city have been received.

In addition, the city has not fixed responsibility for properly reconciling cash receipts. The purpose of the reconciliation process is to promptly discover any errors or irregularities which may have occurred and to take action when any errors or irregularities are discovered. The failure of the city to perform the reconciliation increases the risk that all golf course revenue due the city may not be received.

We recommend the Lake Padden Golf Course management improve the segregation of duties and internal controls over cash receipts. We further recommend the city reconcile daily cash receipt records to the end-of-month golf course management report and take prompt action if differences are noted.

Auditee's Response

The City is reviewing the information provided by the State Auditors and is taking action to remedy the internal control weaknesses outlined in the audit recommendations. Golf Course officials will be working with the Finance Department to develop a system of controls over cash receipts, including the proper segregation of duties between cashier positions, the possible purchase of a point-of-sale cash register having the means of designating the mode of payment, and the independent reconciliation of cash receipts to month-end managerial reports.

Auditor's Concluding Remarks

We will review the status of the city's corrective actions as part of our next audit.

We would like to express our appreciation to the City of Bellingham for the courtesies and cooperation extended to us throughout the audit process.

We wish to thank management for their written response and to acknowledge their efforts to correct those areas noted in our finding.

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
City of Bellingham
Bellingham, Washington

We have audited the accompanying general-purpose financial statements of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in Notes 1B and 6B, the city began recording general fixed asset acquisitions in December 1984. General fixed assets acquired before that date have not been recorded in the general fixed assets account group. The city does not have a fixed asset control system in place to account for items surplused or retired, with the exception of the Internal Service Funds. Additionally, we noted inadequacies in the city's accounting for its Water/Sewer Utility Fund's fixed assets. Accordingly, we were unable to satisfy ourselves as to the fair presentation of the city's general fixed assets account group and Water/Sewer Fund's fixed assets, accumulated depreciation, and depreciation expense balances as reported in the financial statements mentioned above.

In our opinion, except as noted in the preceding paragraph, the financial statements referred to above present fairly in all material aspects, the financial position of the City of Bellingham at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the year then ended, in conformity with generally accepted accounting principals.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 1996, on our consideration of the city's internal control structure and a report dated September 17, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Mayor
City of Bellingham
Bellingham, Washington

We have audited the general-purpose financial statements of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 17, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Bellingham taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor
City of Bellingham
Bellingham, Washington

We have audited the general-purpose financial statements of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 17, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Mayor
City of Bellingham
Bellingham, Washington

We have audited the general-purpose financial statements of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 17, 1996.

We also have audited the city's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to date of obligation of CDBG funds, environmental review, program income and subrecipient agreements, voucher certification and submission, right-of-way policies, and recovery of project overcharges as described in the *OMB Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the city is responsible for the city's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Bellingham complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also

serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Mayor
City of Bellingham
Bellingham, Washington

We have audited the general-purpose financial statements of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 17, 1996.

In connection with our audit of the financial statements of the city and with our consideration of the city's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Bellingham had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor
City of Bellingham
Bellingham, Washington

We have audited the general-purpose financial statements of the City of Bellingham, Whatcom County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 17, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the city complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated September 17, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Property, plant, and equipment
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Inventory control
 - General ledger
- **Specific Requirements**
 - Eligibility

During the fiscal year ended December 31, 1995, the city expended 79 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the city's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the city's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted a reportable condition involving the accounting and/or administrative internal control structure and its operation that we believe to be a material weakness as defined above. The condition, which is identified in the Schedule of Federal Findings accompanying this report, was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the city's compliance with requirements applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995, and this report does not affect our report thereon dated September 17, 1996.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. The City Should Improve Its Accounting For Fixed Assets

As noted in prior audit reports, our review of the City of Bellingham's fixed assets revealed the following weaknesses:

- a. The city does not maintain a comprehensive fixed asset detail ledger for general fixed assets or water/sewer utility assets.
- b. With the exception of the internal service funds and the water/sewer utility, the city does not have a system in place to account for surplus or retired assets.
- c. The city does not take a comprehensive annual physical inventory of its fixed assets.
- d. Federal assets are not consistently identified by a serial number or tag number.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments* Subpart A, _____.3 Equipment (4)(d) states in part:

- (1) Property records must be maintained that include . . . a serial number or other identification number . . .
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population . . .

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, generally accepted accounting principles require accounting for fixed assets and related depreciation.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by city officials. City officials indicate they have purchased computer software to assist in the implementation of a comprehensive fixed asset tracking and accounting system. However, at the time of our report the establishment of this system was still in the preliminary phase. City officials indicate they expect the process to be completed in the near future.

Adequate safeguarding or reporting of city fixed assets cannot be assured when accounting procedures and controls are not established. We consider these deficiencies in the fixed assets system to be a material instance of noncompliance and a material weakness in internal controls.

We again recommend the city:

- a. Establish and maintain a comprehensive detail ledger of general fixed assets and Water/Sewer Utility Fund assets.
- b. Ensure that surpluses and retired assets are properly accounted for.
- c. Perform periodic physical inventories and reconcile to subsidiary ledgers.
- d. Provide a means to identify assets through a serial number or tag number.

Auditee's Response

The City agrees that it does not have a complete fixed asset tracking system to track all of the City's fixed assets.

During 1995, the City purchased a fixed asset tracking system that is scheduled to be in operation during 1996. In addition, the City is implementing a system of accounting procedures and internal controls designed to monitor and to safeguard City-owned property in accordance with all federal and state regulations. These controls include procedures to surplus and retire obsolete assets, to perform periodic inventories of all property and equipment, and to affix barcode identification tags to all tangible assets.

Auditor's Concluding Remarks

We will review the status of the city's corrective actions as part of our next audit.

We would like to express our appreciation to the City of Bellingham for the courtesies and cooperation extended to us throughout the audit process.

We wish to thank management for their written response and to acknowledge their efforts to correct those areas noted in our finding.

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The City Should Improve Its Accounting For Fixed Assets

Resolution: *This condition still exists and has been included in this report.*

2. The City Should Reconcile Golf Course Receipts With Golf Course Management Reports

Resolution: *The condition still exists and has been included in this report.*

3. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed

Resolution: *The internal controls over cash receipts and maintenance of records at the Parkade have been improved. We consider the finding resolved.*